

VILLAGE OF EASTLAKE
Manistee County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2008

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Eastlake	County Manistee
Fiscal Year End June 30, 2008	Opinion Date July 30, 2008	Date Audit Report Submitted to State August 8, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.		Telephone Number 989-894-1040	
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
		Zip 48707	
Authorizing CPA Signature 	Printed Name Mark J. Campbell		License Number 1101007803

VILLAGE OF EASTLAKE
Manistee County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

July 30, 2008

To the Village Council
Village of Eastlake
Manistee County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Eastlake, Manistee County, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Eastlake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Eastlake, Manistee County, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2008

The Management's Discussion and Analysis report of the Village of Eastlake covers the Village's financial performance during the year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

The Village's net assets decreased by \$7,675.90.

The tax base increased from the previous year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental and business type activities. The governmental activities include the General Fund, the Major Street Fund and the Local Street Fund. The business type activities include the Park and Launch Fund.

VILLAGE OF EASTLAKE
Manistee County, Michigan

CONDENSED FINANCIAL INFORMATION
For the year ended June 30, 2008

	Governmental Activities 2008	Business-type Activities 2008	Total 2008
Current Assets	279 738	2 949	282 687
Capital Assets	<u>292 797</u>	<u>3 535</u>	<u>296 332</u>
Total Assets	<u>572 535</u>	<u>6 484</u>	<u>579 019</u>
Current Liabilities	685	-	685
Non-current Liabilities	<u>78 696</u>	<u>-</u>	<u>78 696</u>
Total Liabilities	<u>79 381</u>	<u>-</u>	<u>79 381</u>
Net Assets:			
Invested in Capital Assets	214 102	3 535	217 637
Unrestricted	<u>279 052</u>	<u>2 949</u>	<u>282 001</u>
Total Net Assets	<u>493 154</u>	<u>6 484</u>	<u>499 638</u>
	Governmental Activities 2008	Business-type Activities 2008	Total 2008
Program Revenues:			
Fees and Charges for Services	32 393	11 712	44 105
General Revenues:			
Property Taxes	49 557	-	49 557
State Revenue Sharing	93 736	-	93 736
Interest	7 269	58	7 327
Miscellaneous	<u>14 214</u>	<u>-</u>	<u>14 214</u>
Total Revenues	<u>197 169</u>	<u>11 770</u>	<u>208 939</u>
Program Expenses:			
Legislative	3 100	-	3 100
General Government	50 183	-	50 183
Public Safety	16 026	-	16 026
Public Works	91 254	-	91 254
Recreation and Culture	-	26 911	26 911
Other	<u>29 141</u>	<u>-</u>	<u>29 141</u>
Total Expenses	<u>189 704</u>	<u>26 911</u>	<u>216 615</u>
Increase (Decrease) in Net Assets	7 465	(15 141)	(7 676)
Net Assets, July 1	<u>485 689</u>	<u>21 625</u>	<u>507 314</u>
Net Assets, June 30	<u>493 154</u>	<u>6 484</u>	<u>499 638</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2008

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

General Fund: This fund is used to record all activities of the Village not required to be recorded in a separate fund. This would include revenues and expenditures from building and grounds, legislative, administrative, elections, fire department and department of public works. This fund also contains the majority of the Village's investments which is in certificates of deposit. A savings account is also contained in this fund. Major revenue comes from property taxes, the State of Michigan in the form of Sales tax revenue and equipment rental from the Major and Local streets.

Major Street Fund: This fund is used to record revenues and expenses for the Major streets located within the Village. The major source of revenue comes from the State of Michigan in the form of gas and weight taxes. The fund also includes an initial investment in a certificate of deposit of \$10,000.00. The major expense for this fund is equipment rental for street repair and snow removal.

Local Street Fund: This fund is used to record revenues and expenses for local streets. The major source of revenue comes from the State of Michigan in the form of gas and weight taxes. The major expense for this fund is equipment rental for street repair and snow removal.

Park and Launch Fund: This fund is a business type fund, whereas the Village leases the property from the Department of Natural Resources. The fund is used to record revenues and expenses for the Eastlake Village Park and Launch. The main source of revenue for this fund comes from camp and launch fees charged. The expenses incurred are for general repair and maintenance of the grounds. Camp fees were raised during the fiscal year for the first time in many years to help cover expenses.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

For the fiscal year ended June 30, 2008, net assets of the Village decreased by \$7,675.90 to \$499,638.44.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

For the fiscal year ended June 30, 2008, the fund balance of the General Fund increased by \$5,302.58 to \$181,433.79, the fund balance of the Major Street Fund increased by \$10,300.24 to \$40,218.45, the fund balance of the Local Street Fund increased by \$5,940.12 to \$57,400.27 and the net assets of the Park and Launch Fund decreased by \$15,140.65 to \$6,484.32.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets:

New capital assets totaled \$3,870.37.

Long-Term Debt:

The Village paid \$8,937.04 in principal on long-term debt.

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2008

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Village plans for a future addition to the Maintenance facilities for the storage of sand/salt for winter maintenance due to the relocation of the County Road Commission. Cost of the project is still in the planning stages and funds to finance the project will most likely be requested from the Little River Band of Ottawa Indians Revenue Sharing Board with the Village matching a portion of the request. The Village also maintains a five year plan for both major and local road improvements.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our taxpayers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions regarding this report, please contact Village President, Dan Janicki at the Village office during the hours of 9:00 a.m. to 3:00 p.m., Monday or 10:00 a.m. to 1:00 p.m., Tuesday through Thursday.

VILLAGE OF EASTLAKE
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	265 835 65	7 930 87	273 766 52
Due from State of Michigan	8 920 55	-	8 920 55
Internal balances	<u>4 981 53</u>	<u>(4 981 53)</u>	<u>-</u>
Total Current Assets	<u>279 737 73</u>	<u>2 949 34</u>	<u>282 687 07</u>
NONCURRENT ASSETS:			
Capital Assets	485 647 96	28 720 98	514 368 94
Less: Accumulated Depreciation	<u>(192 850 59)</u>	<u>(25 186 00)</u>	<u>(218 036 59)</u>
Total Noncurrent Assets	<u>292 797 37</u>	<u>3 534 98</u>	<u>296 332 35</u>
TOTAL ASSETS	<u>572 535 10</u>	<u>6 484 32</u>	<u>579 019 42</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES	<u>685 22</u>	<u>-</u>	<u>685 22</u>
Total Current Liabilities	<u>685 22</u>	<u>-</u>	<u>685 22</u>
LONG-TERM LIABILITIES:			
Note payable	<u>78 695 76</u>	<u>-</u>	<u>78 695 76</u>
Total long-term liabilities	<u>78 695 76</u>	<u>-</u>	<u>78 695 76</u>
TOTAL LIABILITIES	<u>79 380 98</u>	<u>-</u>	<u>79 380 98</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	214 101 61	3 534 98	217 636 59
Unrestricted	<u>279 052 51</u>	<u>2 949 34</u>	<u>282 001 85</u>
Total Net Assets	<u>493 154 12</u>	<u>6 484 32</u>	<u>499 638 44</u>
TOTAL LIABILITIES AND NET ASSETS	<u>572 535 10</u>	<u>6 484 32</u>	<u>579 019 42</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	3 100 00	-	(3 100 00)
General government	50 182 82	3 343 00	(46 839 82)
Public safety	16 025 98	-	(16 025 98)
Public works	91 253 92	29 050 32	(62 203 60)
Other	29 141 19	-	(29 141 19)
Total Governmental Activities	<u>189 703 91</u>	<u>32 393 32</u>	<u>(157 310 59)</u>
Business Type Activities:			
Recreation and culture	26 910 77	11 712 01	-
Total Business Type Activities	<u>26 910 77</u>	<u>11 712 01</u>	<u>-</u>
Total Government	<u>216 614 68</u>	<u>44 105 33</u>	<u>(157 310 59)</u>
General Revenues:			
Property taxes			49 556 99
State revenue sharing			93 735 52
Interest			7 268 99
Miscellaneous			14 213 84
Total General Revenues			<u>164 775 34</u>
Change in net assets			7 464 75
Net assets, beginning of year			<u>485 689 37</u>
Net Assets, End of Year			<u>493 154 12</u>

The accompanying notes are an integral part of these financial statements.

<u>Business Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(3 100 00)
-	(46 839 82)
-	(16 025 98)
-	(62 203 60)
-	(29 141 19)
-	(157 310 59)
(15 198 76)	(15 198 76)
(15 198 76)	(15 198 76)
(15 198 76)	(172 509 35)
-	49 556 99
-	93 735 52
-	7 268 99
58 11	14 271 95
58 11	164 833 45
(15 140 65)	(7 675 90)
21 624 97	507 314 34
<u>6 484 32</u>	<u>499 638 44</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	170 686 04	40 217 57	54 932 04	265 835 65
Due from State of Michigan	-	5 897 65	3 022 90	8 920 55
Due from other funds	<u>11 432 97</u>	<u>-</u>	<u>-</u>	<u>11 432 97</u>
Total Assets	<u>182 119 01</u>	<u>46 115 22</u>	<u>57 954 94</u>	<u>286 189 17</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	685 22	-	-	685 22
Due to other funds	<u>-</u>	<u>5 896 77</u>	<u>554 67</u>	<u>6 451 44</u>
Total liabilities	<u>685 22</u>	<u>5 896 77</u>	<u>554 67</u>	<u>7 136 66</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>181 433 79</u>	<u>40 218 45</u>	<u>57 400 27</u>	<u>279 052 51</u>
Total fund equity	<u>181 433 79</u>	<u>40 218 45</u>	<u>57 400 27</u>	<u>279 052 51</u>
Total Liabilities and Fund Equity	<u>182 119 01</u>	<u>46 115 22</u>	<u>57 954 94</u>	<u>286 189 17</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	279 052 51
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	485 647 96
Accumulated depreciation	(192 850 59)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Note payable	<u>(78 695 76)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>493 154 12</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	49 556 99	-	-	49 556 99
Permits	2 318 00	-	-	2 318 00
State revenue sharing	37 875 33	35 889 38	19 970 81	93 735 52
Charges for services	29 050 32	-	-	29 050 32
Rent	1 025 00	-	-	1 025 00
Interest	6 675 25	-	593 74	7 268 99
Miscellaneous	<u>14 213 84</u>	<u>-</u>	<u>-</u>	<u>14 213 84</u>
Total revenues	<u>140 714 73</u>	<u>35 889 38</u>	<u>20 564 55</u>	<u>197 168 66</u>
Expenditures:				
Legislative:				
Village Council	3 100 00	-	-	3 100 00
General government:				
President	2 760 00	-	-	2 760 00
Elections	6 685 99	-	-	6 685 99
Clerk	206 66	-	-	206 66
Treasurer	340 00	-	-	340 00
Village hall and grounds	18 580 87	-	-	18 580 87
Public safety:				
Fire protection	10 564 68	-	-	10 564 68
Liquor law enforcement	185 00	-	-	185 00
Public works:				
Department of Public Works	31 103 99	-	-	31 103 99
Street lighting	7 629 58	-	-	7 629 58
Highways and streets	550 33	25 589 14	14 624 43	40 763 90
Sanitation	11 756 45	-	-	11 756 45
Other:				
Insurance	18 295 47	-	-	18 295 47
Payroll taxes	5 815 59	-	-	5 815 59
Capital outlay	3 870 37	-	-	3 870 37
Debt service	<u>13 967 17</u>	<u>-</u>	<u>-</u>	<u>13 967 17</u>
Total expenditures	<u>135 412 15</u>	<u>25 589 14</u>	<u>14 624 43</u>	<u>175 625 72</u>
Excess (deficiency) of revenues over expenditures	5 302 58	10 300 24	5 940 12	21 542 94
Fund balances, July 1	<u>176 131 21</u>	<u>29 918 21</u>	<u>51 460 15</u>	<u>257 509 57</u>
Fund Balances, June 30	<u>181 433 79</u>	<u>40 218 45</u>	<u>57 400 27</u>	<u>279 052 51</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2008

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 21 542 94

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(26 885 60)
Capital Outlay	3 870 37

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>8 937 04</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>7 464 75</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF NET ASSETS – BUSINESS TYPE FUNDS
June 30, 2008

	<u>Park and Launch Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>7 930 87</u>
Total Current Assets	<u>7 930 87</u>
NONCURRENT ASSETS:	
Capital Assets	28 720 98
Less: Accumulated Depreciation	<u>(25 186 00)</u>
Total Noncurrent Assets	<u>3 534 98</u>
TOTAL ASSETS	<u><u>11 465 85</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Due to other funds	<u>4 981 53</u>
Total Current Liabilities	<u>4 981 53</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	3 534 98
Unrestricted	<u>2 949 34</u>
Total Net Assets	<u>6 484 32</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>11 465 85</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
BUSINESS TYPE FUNDS
Year ended June 30, 2008

	<u>Park and Launch Fund</u>
OPERATING REVENUES:	
Charges for services	11 712 01
Miscellaneous	<u>58 11</u>
Total Operating Revenues	<u>11 770 12</u>
OPERATING EXPENSES:	
Salaries and wages	6 769 41
Operating supplies	866 82
Professional services	189 63
Utilities	549 49
Repairs and maintenance	<u>16 682 42</u>
Total Operating Expenses	<u>25 057 77</u>
Operating Income (Loss) before depreciation	<u>(13 287 65)</u>
Less: Depreciation	<u>(1 853 00)</u>
Change in net assets	(15 140 65)
Net assets, beginning of year	<u>21 624 97</u>
Net Assets, End of Year	<u><u>6 484 32</u></u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS

Year ended June 30, 2008

	<u>Park and Launch Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	11 770 12
Cash payments to suppliers for goods and services	(22 050 69)
Cash payments to employees for services	<u>(6 769 41)</u>
Net cash provided (used) by operating activities	<u>(17 049 98)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Net borrowings (repayments) with other funds	<u>4 981 53</u>
Net cash provided (used) for noncapital and related financing activities	<u>4 981 53</u>
Net increase (decrease) in cash	(12 068 45)
Cash beginning of year	<u>19 999 32</u>
Cash End of Year	<u><u>7 930 87</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	(15 140 65)
Depreciation	1 853 00
Decrease in accounts payable	<u>(3 762 33)</u>
Net Cash Provided (Used) in Operating Activities	<u><u>(17 049 98)</u></u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Eastlake, Manistee County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Eastlake. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Village's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for services. The enterprise fund also recognizes as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on September 14 with the final collection date of September 30 before they are added to the county tax rolls. The Village 2007 tax roll millage rate was 5.50 mills, and the taxable value was \$8,973,813.00.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>273 766 52</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	148 602 01
Uninsured and Uncollateralized	<u>126 757 60</u>
Total Deposits	<u>275 359 61</u>

The Village of Eastlake did not have any investments as of June 30, 2008.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Village manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 3 – Deposits and Investments (continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the Village contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business type activities for the current year was as follows:

	Balance 7/1/07	Additions	Deletions	Balance 6/30/08
<u>Governmental Activities:</u>				
Land	189 172 45	-	-	189 172 45
Buildings	19 843 27	-	-	19 843 27
Equipment	272 761 87	3 870 37	-	276 632 24
Total	481 777 59	3 870 37	-	485 647 96
Accumulated Depreciation	(165 964 99)	(26 885 60)	-	(192 850 59)
Net Governmental Capital Assets	315 812 60	(23 015 23)	-	292 797 37
<u>Business Type Activities:</u>				
Park and Launch	28 720 98	-	-	28 720 98
Accumulated Depreciation	(23 333 00)	(1 853 00)	-	(25 186 00)
Net Business-Type Capital Assets	5 387 98	(1 853 00)	-	3 534 98

Note 5 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 6 – Retirement Plan

The Village does not have a retirement plan.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 7 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Changes in Long-Term Debt

	Balance 7/1/07	Additions	Deletions	Balance 6/30/08
Note payable- fire truck	87 632 80	-	8 937 04	78 695 76
Total	<u>87 632 80</u>	<u>-</u>	<u>8 937 04</u>	<u>78 695 76</u>

Note 9 – Note Payable- Fire Truck

On May 2, 2008, the Village obtained a loan in the amount of \$110,051.87 to finance a 2008 Sterling Truck. The loan is repayable in ten annual payments in the amount of \$13,967.17, including interest at the rate of 5.74% per annum. As of June 30, 2008, the principal balance outstanding was \$78,695.76.

Due Date	Total	Interest	Principal
5/2/2009	\$ 13 967 17	\$ 4 517 14	\$ 9 450 03
5/2/2010	13 967 17	3 974 70	9 992 46
5/2/2011	13 967 17	3 401 14	10 566 03
5/2/2012	13 967 17	2 794 65	11 172 52
5/2/2013	13 967 17	2 153 35	11 813 82
5/2/2014	13 967 17	1 475 23	12 491 93
5/2/2015	<u>13 967 17</u>	<u>758 19</u>	<u>13 208 97</u>
Totals	<u>\$ 97 770 19</u>	<u>\$ 19 074 43</u>	<u>\$ 78 695 76</u>

Note 10 – Budget Variances

For the fiscal year ended June 30, 2008, Village expenditures exceeded the budgeted amounts in several activities as follows:

	Total Budget	Total Expenditures	Excess Expenditures
General Fund Activity:			
Elections	1 500 00	6 685 99	5 185 99
Clerk	200 00	206 66	6 66
Treasurer	100 00	340 00	240 00
Street lighting	6 000 00	7 629 58	1 629 58
Highways and streets	-	550 33	550 33
Sanitation	3 500 00	11 756 45	8 256 45
Insurance	9 500 00	18 295 47	8 795 47
Payroll taxes	4 500 00	5 815 59	1 315 59
Capital outlay	2 000 00	3 870 37	1 870 37
Debt service	-	13 967 17	13 967 17
Major Street Fund Activity:			
Highways and streets	25 200 00	25 589 14	389 14

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 11 – Building Permits

The Village of Eastlake does not issue building permits. Building permits are issued by the State of Michigan.

Note 12 – Interfund Receivables and Payables

As of June 30, 2008, the Village of Eastlake had the following interfund receivables and payables:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	5 896 77	Major Street	5 896 77
General	554 67	Local Street	554 67
General	<u>4 981 53</u>	Park and Launch	<u>4 981 53</u>
Total	<u>11 432 97</u>	Total	<u>11 432 97</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	48 000 00	48 000 00	49 556 99	1 556 99
Permits	435 00	435 00	2 318 00	1 883 00
State revenue sharing	35 000 00	35 000 00	37 875 33	2 875 33
Charges for services	22 000 00	22 000 00	29 050 32	7 050 32
Rent	1 000 00	1 000 00	1 025 00	25 00
Interest	4 800 00	4 800 00	6 675 25	1 875 25
Miscellaneous	4 700 00	5 894 00	14 213 84	8 319 84
Total revenues	115 935 00	117 129 00	140 714 73	23 585 73
Expenditures:				
Legislative:				
Village Council	3 200 00	3 200 00	3 100 00	(100 00)
General government:				
President	2 900 00	2 900 00	2 760 00	(140 00)
Elections	1 500 00	1 500 00	6 685 99	5 185 99
Clerk	4 000 00	200 00	206 66	6 66
Treasurer	400 00	100 00	340 00	240 00
Village hall and grounds	37 500 00	22 000 00	18 580 87	(3 419 13)
Public safety:				
Fire protection	13 600 00	18 771 00	10 564 68	(8 206 32)
Liquor law enforcement	385 00	385 00	185 00	(200 00)
Public works:				
Department of Public Works	16 500 00	36 000 00	31 103 99	(4 896 01)
Street lighting	7 700 00	6 000 00	7 629 58	1 629 58
Highways and streets	-	-	550 33	550 33
Sanitation	3 500 00	3 500 00	11 756 45	8 256 45
Other:				
Insurance	9 500 00	9 500 00	18 295 47	8 795 47
Payroll taxes	4 500 00	4 500 00	5 815 59	1 315 59
Capital outlay	2 000 00	2 000 00	3 870 37	1 870 37
Debt service	-	-	13 967 17	13 967 17
Total expenditures	107 185 00	110 556 00	135 412 15	24 856 15
Excess (deficiency) of revenues over expenditures	8 750 00	6 573 00	5 302 58	(1 270 42)
Fund balance, July 1	-	-	176 131 21	176 131 21
Fund Balance, June 30	8 750 00	6 573 00	181 433 79	174 860 79

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	<u>35 000 00</u>	<u>35 000 00</u>	<u>35 889 38</u>	<u>889 38</u>
Total revenues	<u>35 000 00</u>	<u>35 000 00</u>	<u>35 889 38</u>	<u>889 38</u>
Expenditures:				
Public works:				
Highways and streets	<u>23 350 00</u>	<u>25 200 00</u>	<u>25 589 14</u>	<u>389 14</u>
Total expenditures	<u>23 350 00</u>	<u>25 200 00</u>	<u>25 589 14</u>	<u>389 14</u>
Excess (deficiency) of revenues over expenditures	11 650 00	9 800 00	10 300 24	500 24
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>29 918 21</u>	<u>29 918 21</u>
Fund Balance, June 30	<u><u>11 650 00</u></u>	<u><u>9 800 00</u></u>	<u><u>40 218 45</u></u>	<u><u>30 418 45</u></u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	19 350 00	19 350 00	19 970 81	620 81
Interest	<u>500 00</u>	<u>300 00</u>	<u>593 74</u>	<u>293 74</u>
Total revenues	<u>19 850 00</u>	<u>19 650 00</u>	<u>20 564 55</u>	<u>914 55</u>
Expenditures:				
Public works:				
Highways and streets	<u>19 850 00</u>	<u>19 700 00</u>	<u>14 624 43</u>	<u>(5 075 57)</u>
Total expenditures	<u>19 850 00</u>	<u>19 700 00</u>	<u>14 624 43</u>	<u>(5 075 57)</u>
Excess (deficiency) of revenues over expenditures	-	(50 00)	5 940 12	5 990 12
Fund balance, July 1	<u>-</u>	<u>50 00</u>	<u>51 460 15</u>	<u>51 410 15</u>
Fund Balance, June 30	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>57 400 27</u></u>	<u><u>57 400 27</u></u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended June 30, 2008

Village Council:	
Wages	<u>3 100 00</u>
President:	
Wages	560 00
Transportation	<u>2 200 00</u>
	<u>2 760 00</u>
Elections:	
Wages	358 50
Supplies	<u>6 327 49</u>
	<u>6 685 99</u>
Clerk:	
Salary	<u>206 66</u>
Treasurer:	
Salary	<u>340 00</u>
Village hall and grounds:	
Wages	8 222 30
Supplies	2 020 19
Printing and publishing	61 25
Utilities	4 942 83
Repairs and maintenance	2 732 85
Equipment	526 45
Miscellaneous	<u>75 00</u>
	<u>18 580 87</u>
Fire protection:	
Wages	3 789 84
Operating supplies	1 140 28
Utilities	2 335 56
Repairs and maintenance	3 065 54
Miscellaneous	<u>233 46</u>
	<u>10 564 68</u>
Liquor law enforcement:	
Wages	<u>185 00</u>
Department of Public Works:	
Wages	19 456 00
Operating supplies	2 629 26
Vehicle operating expenses	4 916 78
Utilities	716 43
Repairs and maintenance	<u>3 385 52</u>
	<u>31 103 99</u>
Street lighting:	
Utilities	<u>7 629 58</u>
Highways and streets	<u>550 33</u>
Sanitation:	
Contractual	<u>11 756 45</u>
Insurance	<u>18 295 47</u>
Payroll taxes	<u>5 815 59</u>
Capital outlay	<u>3 870 37</u>
Debt service	<u>13 967 17</u>
Total Expenditures	<u>135 412 15</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 30, 2008

To the Village Council
Village of Eastlake
Manistee County, Michigan

We have audited the financial statements of the Village of Eastlake for the year ended June 30, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Eastlake in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Eastlake
Manistee County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

The Village's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Village cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Village Council Members understand these circumstances when performing their oversight responsibilities.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated June 30, 2008.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants